

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
SOUTH CENTRAL BELL TELEPHONE) CASE NO. 8847
COMPANY OF KENTUCKY)

O R D E R

IT IS ORDERED that South Central Bell Telephone Company ("SCB") shall file an original and 15 copies of the following information with the Commission on or before September 16, 1983. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and Kentucky jurisdictional operations, separately. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. Provide the workpapers used to calculate the growth rates for AT&T and the S&P 400 industrials for all years listed on pages 4 through 11 of Mr. Matheson's exhibit.

2. Provide a list of the companies with high quality debt and provide the workpapers used to calculate the ROE for all years listed on page 12 of Mr. Matheson's exhibit.

3. Provide a list of the comparable quality companies and provide the workpapers used to calculate the ROE for all years listed on page 13 of Mr. Matheson's exhibit.

4. Provide a list of the stocks widely owned by institutional investors and provide the workpapers used to calculate the ROE for all years listed on page 14 of Mr. Matheson's exhibit.

5. Explain how the 300 to 500 basis points spread, referred to on line 16, page 22, of Mr. Meyer's prefiled testimony, was determined.

6. Provide a list of the companies included in the composite of Standard & Poor's high-grade corporate bonds, referred to on page 16 of Dr. Furst's prefiled testimony.

7. Provide a list of the companies included in the Standard & Poor's composite stocks.

8. Provide a list of the companies included in the composite of Standard & Poor's public utilities stocks.

9. (a) Explain what is meant by "compound returns" referred to on page 17 of Dr. Furst's prefiled testimony.

(b) Provide the workpapers used to calculate the compound returns for the various time periods ending in 1982.

10. (a) Explain why 36 and 16 starting dates were used, as referred to on page 17 of Dr. Furst's prefiled testimony.

(b) Provide the workpapers used to calculate the 6.5, 5.5, 6.4 and 5.0 percent risk premiums referred to on page 17 of Dr. Furst's prefiled testimony.

11. Explain the derivation of the 100 basis points referred to on page 17 of Dr. Furst's prefiled testimony.

12. What was the source of the data shown on exhibit F & A 2.19?

13. Explain how the 11.2 and 12.0 percent bond rates were determined on Exhibit F & A 2.24.

14. Explain how the 3 to 4 percent floatation costs, referred to on page 18 of Dr. Furst's prefiled testimony, were determined.

15. Explain the criteria used to select the 8 telephone companies listed on exhibit F & A 2.16.

16. (a) What was the total cost billed to all BOCs by Bell Labs for Business Information Systems development in the test year, of which Mr. Ballard claims Kentucky's intrastate portion was \$1.697 million? (Reference: Mr. Ballard's testimony at page 8)

(b) What precise formula or allocation method was used to determine the Kentucky intrastate portion of this cost which Mr. Ballard identifies?

17. Please provide the basis for the claimed \$4,389,000 reduction in centralized costs after divestiture, identified in Mr. Ballard's testimony at page 17 (and which also represents the

difference between Columns P and Q at line 15 of his Exhibit 3). Include all documentation, workpapers, and calculations which support this figure.

18. (a) Please list and quantify all "affiliated charges" referred to at the top of page 18 of Mr. Ballard's testimony.

(b) Provide a detailed cross-reference between the new functions to be funded by these charges and the "comparable functions" performed under the License Contract which will be replaced.

(c) List the costs of each function under the old and new structures, and identify where savings will be incurred.

(d) Provide a detailed description of the manner in which savings identified in part c) of this request were estimated.

19. Has SCB signed or drawn up contracts for the provision of specific services after divestiture by central affiliates such as the CSO and the RSC? As an ongoing request, please provide copies of all such contracts or proposed contracts.

20. (a) Please provide copies of all studies, budget projections, memoranda, contracts, or other documents upon which Mr. Parish bases his estimate that 35 percent of the CSO budget will initially be allocated to "core projects". (Reference: Mr. Parish's testimony, page 15, lines 12-13)

(b) Identify all core projects to be undertaken in the first year of the CSO's existence.

(c) Specify the costs which are projected in 1984 for each of the core projects identified in part (b) of this request.

21. Referring to the staement in Mr. Parish's testimony at page 16, lines 12-17, what criteria will SCB or the Bell South Regional Holding Company employ in deciding whether the CSO has "proven its worth," and whether to withdraw from the CSO?

22. (a) Identify the 12 top priority projects discussed in Mr. Parish's testimony at page 24, lines 1-3.

(b) Identify what portions of Bell Labs work functions will be transferred to the CSO, as mentioned in Mr. Parish's testimony at page 24, lines 9-12.

(c) Will any of the CSO projects identified in response to part (a) consist of ongoing Bell Labs efforts that will be transferred in their entirety to the CSO? If so, identify which ones.

(d) Has SCB made any evaluation of how projects to be transferred all or in part from Bell labs might be streamlined or improved in the process of re-establishing them at the CSO? If so, please provide a detailed description of any such evaluation.

23. (a) What is the total projected cost for the RSC in 1984?

(b) Provide a breakdown of this cost among the RSC's principle functions, identified in Mr. Parish's testimony at page 27, lines 26-27.

(c) Describe in detail the manner in which the cost breakdown presented in response to part (b) of this question was developed.

24. (a) Please provide a detailed summary of the specific job functions to be performed by the RSC.

(b) For each of the job functions identified in response to part (a) of this request, provide the projected 1984 costs for the function, broken down into specific cost elements, including salaries, materials, equipment, overhead, and so forth.

(c) For each of the job functions identified in response to part (a) of this request, provide the number of employees which will be allocated to that function.

25. Define the term "competitive obsolescence" as it is used in Mr. Parish's testimony at page 28, line 16.

26. (a) What will be the cost to SCB in 1984 of shareholder services provided under contract by AT&T, as described in Mr. Parish's testimony at page 33, lines 20-32, through page 34, lines 1-11?

(b) Provide copies of all contracts, memoranda, agreements, and other correspondence between SCB and AT&T concerning these shareholder services, and the AT&T subsidiary which will provide them.

27. Please provide a detailed explanation of the basis for the RHC expenses identified in Mr. Glass's Exhibit 1, including all related assumptions, calculations, workpapers, and documentation.

28. (a) Identify in detail the specific job functions which will be performed within each of the service categories of the RHC, as listed in Mr. Glass's Exhibit 1.

(b) For each of the job functions identified in response to this request, provide the projected 1984 costs for the function, broken down into specific cost elements, including salaries, materials, equipment, overhead, and so forth.

(c) For each of the job functions identified in response to this request, provide the number of employees which will be allocated to the job function.

29. Please provide a list of all BIS products and the date each product was available for implementation for use by the Bell Operating Companies.

30. Please provide a list of all BIS products implemented in Kentucky, and the year each product was implemented in Kentucky.

31. Please provide a list of all implementation costs associated with each BIS product identified in the previous request.

32. Please provide the Kentucky Intrastate BIS expense for each of the years 1967 through 1983.

33. (a) Please provide the net benefit to South Central Bell-Kentucky associated with the implementation of BIS products in Kentucky for each of the years 1967 through 1983.

(b) Describe in detail the manner in which the net benefits provided in response to part (a) of this request were estimated.

34. Provide a detailed disaggregation of test year BIS costs by individual BIS product.

35. Using AT&T's Annual Report of License Contract Services and Costs, for the South Central Bell Telephone Company of Kentucky, please provide the "American Telephone & Telegraph Company General Department Allocations of Expenses Incurred and Return on Investment Employed in Rendering License Contract Services to Long-Lines Department and Licensee Company" for the years 1961 through 1983.

36. If not provided in the material requested above, please provide the Bell Labs Research and Systems Engineering expenses allocated to South Central Bell-Kentucky pursuant to the License Contract for the years 1961 through 1983.

37. As an ongoing request, please provide copies of all contracts entered into between South Central Bell - Kentucky and AT&T relating to the shared use of facilities. Identify all such interentity charges/payments between SCB-Kentucky and AT&T which have been incorporated into the rate filing and provide a detailed description of how such charges/payments were developed. As part of this request, identify and explain underlying assumptions used in the development of these charges/payments.

38. Please quantify the "revenue change from customers choosing LMS" which is referred to on the bottom of page 6 of Ms. Mezzell's testimony.

39. Please provide all studies, workpapers, or other documentation related to South Central Bell's decision to price Flat Rate Service in exchanges where LMS is not available at the average of the Flat Rate and Measured Rate in those exchanges

where Measured Service is available. (Reference: Ms. Mezzell, Testimony, page 6)

40. Please furnish any studies which identify levels of cost and level of usage separately for flat-rate lines furnished in exchanges in which measured service is offered vis-a-vis those furnished in exchanges in which measured service is not available.

41. Ms. Mezzell states on page 3 of her testimony that one of the considerations used in designing SCB's proposed MTS schedule was the "need for rate parity between intra and interLATA services." Please provide any studies conducted by, or in the possession of, South Central Bell which demonstrate the "need for rate parity between intra and interLATA services" being discussed by the witness.

42. Please provide support for SCB's selection of 25 percent as the increase to be applied to the rates for private line and private line-like services. As part of this response, identify the "inflation effects" referred to by Ms. Mezzell on page 13 of her testimony.

43. For which of the other services identified on page 14 of Ms. Mezzell's testimony as being subject to the 25 percent across-the-board increase, are "up-to-date cost studies" not available? Indicate the date at which these services were last studied, and provide the results of such studies. If no study exists, so indicate.

44. As an ongoing request, please provide (when complete) all background analysis, workpapers, input data and alternative model specifications developed in the preparation of studies of

demand effects that are referenced on page 14 of Ms. Mezzell's testimony. In addition, please make available for inspection all computer output generated by SCB in the process of developing demand effects.

45. Please provide all workpapers associated with Exhibit 2 of Ms. Mezzell's testimony dealing with different exchange rate structures and rates. This should include, but not be limited to, the identification of Schedules 1A-F, 2A-D, 5A-B, AND 17A.

46. Provide a breakdown of the Basic Local Exchange and Related Services and the Miscellaneous Services categories of Ms. Mezzell's Exhibit 1 by the individual components delineated on the Exhibit.

47. Provide cost studies which disaggregate the access line and local usage elements of local exchange service, separately for each class of service.

48. Provide studies, disaggregated by existing exchange rate group and for exchange where measured service is/is not offered, which identify the level of usage and associated usage-sensitive costs separately for each class of exchange service.

49. Provide a description of SCB's current plans for recovery of inside wire and other investment associated with customer premises equipment (CPE) which SCB will continue to own after it transfers its embedded CPE to AT&T. IF SCB plans to propose any tariff changes, please provide complete descriptions and dates at which the filings are anticipated. Provide this information separately for (a) month-to-month and "Companion"

services, (b) Two-Tier priced services, and (c) Variable Term Payment (VTP) and other rate-stabilized services.

50. What methods has SCB developed and which it plans to adopt to assure that the actual time and materials expended by its craftsmen on individual jobs are reasonable? Does SCB plan to develop any Administrative Practices or similar operating procedures which will permit its Commercial and Sales representatives to quote or estimate prices for specific types of installations to customers requesting this information? If so, please furnish same. What method or procedure will SCB utilize to resolve disputes about the actual time and materials cost incurred on a given job? Under what circumstances, if any, will SCB undertake to make firm quotations in advance of such work being performed? Will customers have an option of electing a fixed price in lieu of a time and materials price if they so choose? Under what conditions would customers be informed of such an option?

51. Provide all usage and cost study results which distinguish between business lines arranged for "grouping" service vis-a-vis those not so arranged.

52. Provide all cost studies developed by SCB in support of its proposed Direct Inward Dialing (DID) rate restructuring. Has SCB undertaken any studies addressing the rate of call completions and call holding times for calls placed on a DID vs. a non-DID basis? If so, please furnish same.

53. Please provide a description of the "Stakeholder Management Program". Has the program been instituted in Kentucky? If so please provide the following:

- (a) The date when the program was instituted.
- (b) The level of expenses that have been incurred.
- (c) A description of the nature and purpose of any information that has been released in conjunction with this program along with copies of any such information.

54. (a) With respect to Mr. Ballard's testimony (pages 15-17) regarding revenue adjustments for divestiture, please provide the following:

(1) A description of how data was quantified for each revenue category including identification and explanation of all underlying assumptions.

(2) All workpapers and backup data associated with that quantification.

(b) For categories where specific data was not available, please provide a description of how the forecasted relationships were developed including:

(1) All materials (forms, instruction sheets, directives....) used in the forecasting procedure.

(2) The names, titles and job descriptions of all employees who participated in the forecasting procedure.

(3) Copies of any and all raw data sheets related to the forecasting procedure.

55. Mr. Ballard states in his testimony (page 16) that "quantification [of InterLATA Toll revenue] was obtained through utilization of actual message data on a point-to-point basis". Please provide all workpapers and backup data relating to this quantification.

56. (a) Mr. Ballard states on page 17 of his testimony regarding divestiture adjustments for expenses and taxes that "[w]here specific data was available I utilized that data in quantifying the item being adjusted." For categories where specific data was available, please provide:

(1) A description of how that data was quantified for each category.

(2) All workpapers and backup data associated with that quantification.

(3) Identification and explanation of all underlying assumptions.

(b) For categories where specific data was not available, please provide a description of how the forecasted relationships were developed including:

(1) All materials, (forms, instruction sheets, directives....) used in the forecasting procedure.

(2) The names, titles and job descriptions of all employees who participated in the forecasting procedure.

(3) Copies of any and all raw data sheets related to the forecasting procedure.

57. Was CBAPS (Centralized Budgeting and Planning System) utilized by South Central Bell in preparing the forecasts of

divestiture adjustments to revenues, expenses and taxes discussed on pages 15-17 of Mr. Ballard's testimony? If so please provide a description of CBAPS and any and all inputs and outputs of the system.

58. Provide the total dollar amount of projected construction budget for 1985.

59. Provide details of the construction budget for 1983 and proposed budgets for 1984 and 1985 in the following areas:

- (a) Central office equipment (COE)
- (b) Carrier equipment
- (c) Outside plant, specifically Fiber Optics

60. Supply copies of workpapers which provide economic justification for additions and changes in the plant categories indicated above.

61. (a) Where known, provide information as to the type and manufacturer of the equipment to be used in the plant categories listed above.

(b) Relative to (a), what types and manufacturers of equipment were considered? Provide economic justification for the types and manufacturers selected.

62. For the COE and all outside plant categories, what percentage of construction by category is performed by contract as opposed to internal work force? Provide details of typical contract payment arrangements, and average length of contract by plant category.

63. (a) Provide estimates for 1984 and 1985 of "Essential" construction expenditures based on a "status quo" program. These

expenditures should be based only on maintenance of existing service and provision of service to new applicants, and should only include modernization to the same extent.

(b) What would be the effect on quality of service of such a construction program as outlined in part (a).

64. Provide the incremental construction budget cost (i.e., software, etc.) necessary for the provision of local measured service. Provide the total dollar amount spent as well as the cost per access line, for customers served by digital and electronic central offices. For central offices other than digital, provide these same total dollar and per line costs, specifying the type of office. Provide this information for 1983 and the projected amounts for 1984 and 1985.

65. Provide the incremental cost per line that would be necessary to provide local measured service to 2-party customers. Provide this information by type of central office.

66. Identify, by category of plant and dollar amounts, construction work necessary to provide "Equal Access" as required by the MFJ for the period 1983 thru 1985 by year.

67. On page 2 of J.E. Chapman's testimony he states that SCB carried on a \$1.7 billion construction program since 1970. Provide the portion of that amount that was used for equipment purchases, and provide the amounts specifically for COE and outside plant. Also provide the portion that was attributable to capitalized labor.

68. On page 6 of J.E. Chapman's testimony he states projected access line increases of 12,000 and 19,000 for 1983, and

1984 respectively. Provide growth expectation for 1985 and provide the actual number of access line increases for 1983 to date.

Done at Frankfort, Kentucky, this 2nd day of September, 1983.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary